

Use the question-specific markscheme together with the markbands. Award up to the maximum marks as indicated.

SECTION A

Microeconomics

1. (a) Explain *two* reasons why governments impose indirect taxes.

[10 marks]

Answers **may** include:

- definition of an indirect tax
- diagram showing the effect of an indirect tax
- an explanation that indirect taxes are a source of government revenue, a method to correct negative externalities of production and consumption, a way to redistribute income if levied on luxury goods, and a method of trade protection
- examples of the imposition of indirect taxes.

N.B. Award a maximum of level 2 if only one reason is explained.

Assessment Criteria

Part (a) 10 marks

Level	Marks
0 The work does not reach a standard described by the descriptors below.	0
1 There is little understanding of the specific demands of the question. Relevant economic terms are not defined. There is very little knowledge of relevant economic theory. There are significant errors.	1–3
2 There is some understanding of the specific demands of the question. Some relevant economic terms are defined. There is some knowledge of relevant economic theory. There are some errors.	4–6
3 There is understanding of the specific demands of the question. Relevant economic terms are defined. Relevant economic theory is explained and applied. Where appropriate, diagrams are included and applied. Where appropriate, examples are used. There are few errors.	7–8
4 There is clear understanding of the specific demands of the question. Relevant economic terms are clearly defined. Relevant economic theory is clearly explained and applied. Where appropriate, diagrams are included and applied effectively. Where appropriate, examples are used effectively. There are no significant errors.	9–10

- (b) Discuss the consequences for consumers, producers and the government of imposing a specific tax on cigarettes.

[15 marks]

N.B. It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of demerit goods and specific tax
- diagram to show the imposition of a specific tax on cigarettes
- an explanation of how the indirect tax raises the price to consumers and reduces the quantity demanded of cigarettes; the indirect tax increases the cost of production, resulting in less supply of cigarettes; the low PED for cigarettes will affect the effectiveness of the policy and the revenue raised by government
- examples of when a specific tax is used on cigarettes
- synthesis or evaluation (discuss).

Command term

“Discuss” requires candidates to offer a considered and balanced review that includes a range of arguments, factors or hypotheses.

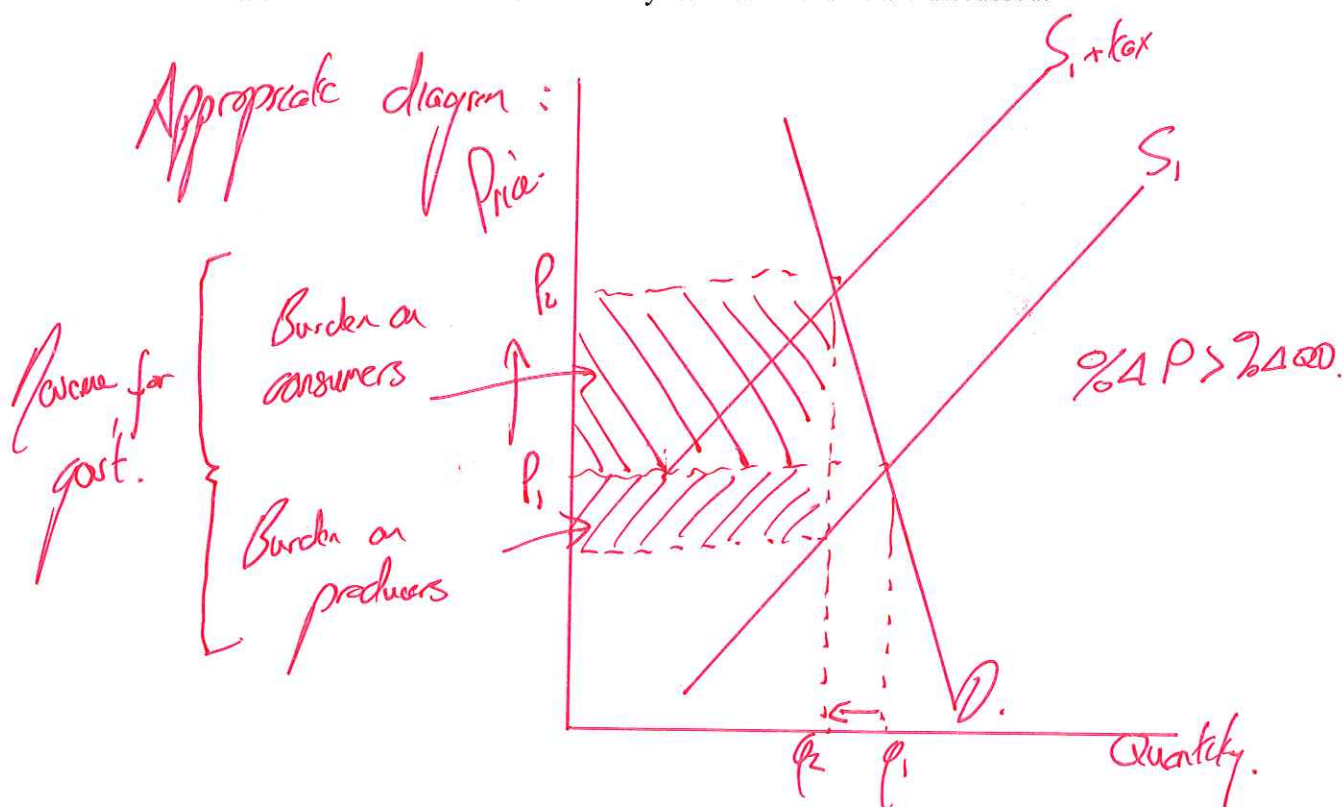
Discussion **may** include: the advantages and disadvantages for the different stakeholders and the overall effectiveness of the policy.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

N.B. Award a maximum of level 2 if only one stakeholder is discussed.

Award a maximum of level 3 if only two stakeholders are discussed.



SL (2) .

2. (a) Explain the likely effects of falling costs of factors of production on price and output in agricultural markets.

[10]

Answers *may* include:

- definitions of cost, factors of production and supply
- diagram to show increasing supply of agricultural goods, a falling price and increasing output
- theory to explain that falling costs of factors of production increase the supply of agricultural goods, reduce price and increase output
- examples of agricultural markets where costs fall due to various factors, such as improvement of technology.

- (b) Discuss the impact on different stakeholders of governments using price floors (minimum prices) to support farmers when agricultural prices are falling.

[15]

Answers may include:

- definition of price floor
- diagram to show the application of a price floor on an agricultural market
- explanation of how price floors affect consumers, producers and government
- examples of the application of a price floor on an agricultural market
- synthesis or evaluation (discuss).

Discussion **may** include: the effectiveness of the policy to support farmers in terms of:

- guaranteeing farmers a price above the equilibrium that raises their revenues
- the cost to the government of intervention buying of surpluses
- the higher prices paid by consumers for agricultural products
- the problems of dealing with surpluses.

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Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

SECTION B

Macroeconomics

3. (a) Explain the difference between cost-push and demand-pull inflation.

[10 marks]

Answer **should** include:

- definitions of inflation, cost-push inflation and demand-pull inflation
- diagrams to show demand-pull inflation and cost-push inflation
- an explanation of demand-pull inflation in terms of AD rising faster than SRAS and the price level rising; an explanation of cost-push inflation in terms of SRAS moving to the left and the price level rising
- example(s) of demand-pull inflation and cost-push inflation.

* For cost push inflation SRAS must be used in diagram.

* An explanation of why producers raise prices when costs increase is required.

* An explanation of why Agg. Demand increases is required

- (b) "A rise in the inflation rate will always result in negative consequences for the economy." To what extent is this statement true? [15 marks]

N.B. It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definition of inflation
- diagram(s) to show negative impact of cost-push inflation on output
- an explanation of various negative consequences including redistributive effects, loss of competitiveness in export markets, the impact of uncertainty on investment, the impact of rising prices on consumer disposable income
- example(s) of when the inflation rate has risen
- synthesis or evaluation ("to what extent").

"To what extent" **may** include: a consideration to when inflation has negative consequences and when it does not and the extent to which inflation affects different stakeholders.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.

- TO WHAT EXTENT: CONSIDER*
- *NEGATIVE IMPACTS ON STAKEHOLDERS*
 - *loss of real income, fall in living standards*
 - *impact on those on fixed incomes*
 - *impact on foreign trade*
 - *impact on savers + lenders.*
 - *OTHER IMPACTS ON STAKEHOLDERS*
 - *Those that get pay increases in line with inflation*
 - *home owners who see a fall in real value of debt*
 - *Inflation might be symptomatic of a strong + healthy economy*
 - *Magnitude of rise in ~~interest~~ rates. - eg from 0.3 to 0.4%.*

SL (4) .

4. (a) Explain how an increase in investment might affect aggregate demand and aggregate supply.

[10 marks]

Answers **should** include:

- definitions of investment, aggregate demand and aggregate supply
- diagram to show changes in AD/LRAS
- an explanation that an increase in investment as a component of aggregate demand would increase AD; an explanation that an increase in investment would shift the LRAS curve to the right
- examples of what is meant by an increase in investment like increased spending on capital goods.

N.B. Award a maximum of level 2 if only one of aggregate demand and aggregate supply is explained.

- (b) **“An increase in aggregate demand may not lead to an increase in real national income.” To what extent is this statement valid?** [15 marks]

N.B. It should be noted that definitions, theory, and examples that have already been given in part (a), and then referred to in part (b) should be rewarded.

Answers **may** include:

- definitions of aggregate demand and real national income
- diagram to show an increase in AD when the economy is at and below full employment
- an explanation that an increase in aggregate demand can lead to a rise in real national income if the economy is operating below full employment; an explanation that an increase in aggregate demand will not lead to a rise in real national income of the economy is operating at or approaching full employment
- examples of when an increase in AD has/has not resulted in an increase in real GDP
- synthesis or evaluation (to what extent).

Command term

“To what extent” requires candidates to consider the merits or otherwise of an argument or concept.

Consideration of the merits of the statement **may** include: a review of Keynesian/neoclassical viewpoints and that the effect would depend on where the macroeconomic equilibrium lies. Also, candidates may mention that real national income cannot rise beyond full employment on the Keynesian AS curve, but that output can rise beyond full employment in the short run but not the long run on the monetarist long run AS curve.

Examiners should be aware that candidates may take a different approach which, if appropriate, should be rewarded.

Opinions or conclusions should be presented clearly and should be supported by appropriate examples.